

Message Text

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R 161740Z APR 74

FM SECSTATE WASHDC

TO CINCPAC

C O N F I D E N T I A L STATE 072725

FOLLOWING REPEAT STATE 072725 ACTION MANILA 10 APR.

QUOTE

C O N F I D E N T I A L STATE 072725

E.O. 11652: GDS

TAGS: MASS, RP, US

SUBJECT: M-16 COPRODUCTION AGREEMENT

REF: STATE 61285, DATED MARCH 27

FOR THE AMBASSADOR

1. FOLLOWING IS DRAFT TEXT OF MEMORANDUM OF UNDERSTANDING FOR M-16 COPRODUCTION AGREEMENT. WOULD APPRECIATE YOUR COMMENTS. PLEASE NOTE THIS IS STILL UNDERGOING INTER- AND INTRA-DEPARTMENTAL CLEARANCE PROCESS. WE ARE GIVING SPECIAL ATTENTION TO LANGUAGE OF PARA 5 IN VIEW OF FACT THERE IS USUALLY NOMINAL CHARGE OF LESS THAN ONE PERCENT FOR USE
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OF USG TOOLING AND FACILITIES. UPON RECEIPT OF ALL

CLEARANCES WE PLAN TO AUTHORIZE AD REFERENDUM NEGOTIATIONS WITH GOP, WITH ANY CHANGES IN TEXT SUBJECT TO PRIOR CONCURRENCE BY DEPARTMENTS OF STATE AND DEFENSE. REQUEST EMBASSY NOT DISCUSS CONTENTS OF MOU WITH GOP PENDING FULL CLEARANCES.

2. BEGIN TEXT. MEMORANDUM OF UNDERSTANDING-----
-----BETWEEN THE GOVERNMENT OF THE PHILIPPINES AND THE
-GOVERNMENT OF THE UNITED STATES OF AMERICA RELATING TO THE
-----ESTABLISHMENT OF AN M-16 RIFLE ASSEMBLY PROGRAM IN
-----THE PHILIPPINES-----

3. WHEREAS, THE GOVERNMENT OF THE PHILIPPINES (HEREINAFTER REFERRED TO AS GOP) AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA (HEREINAFTER REFERRED TO AS USG), HAVE REVIEWED THE MILITARY REQUIREMENT OBJECTIVES OF THE GOP AND AGREE THAT THE ESTABLISHMENT OF AN M-16 RIFLE ASSEMBLY CAPABILITY IN THE PHILIPPINES WOULD MAKE AN IMPORTANT CONTRIBUTION TO THE DEFENSE NEEDS OF THE GOP;

4. WHEREAS, THE GOP HAS REQUESTED THE USG TO PROVIDE FOREIGN MILITARY SALES CREDITS IN ORDER TO HELP FINANCE THE COST OF THE M-16 ASSEMBLY PROGRAM; AND

5. WHEREAS, THE AFORESAID REQUESTED FINANCING WILL FACILITATE THE PURPOSES OF THE UNITED STATES FOREIGN MILITARY SALES ACT, AS AMENDED;

6. NOW, THEREFORE, IN RECOGNITION OF THE PURPOSES OF THE MUTUAL DEFENSE TREATY OF AUGUST 30, 1951 BETWEEN THE GOP AND THE USG AND IN IMPLEMENTATION OF THE MUTUAL DEFENSE ASSISTANCE AGREEMENT OF JULY 5, 1953 BETWEEN THE GOP AND THE USG, REPRESENTATIVES OF THE GOP AND THE USG, ACTING FOR THEIR RESPECTIVE GOVERNMENTS, AGREE TO THE FOLLOWING:

(1) PROGRAM OBJECTIVE.

THE OBJECTIVE OF THE PROGRAM IS THE ESTABLISHMENT BY THE GOP OF AN M-16 RIFLE ASSEMBLY FACILITY TO MANUFACTURE AND ASSEMBLE OVER A FIVE-YEAR PERIOD A MAXIMUM OF 150,000
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M-16 RIFLES PLUS THE EQUIVALENT OF NO MORE THAN 22,500
M-16 RIFLES IN THE FORM OF ASSOCIATED SPARE PARTS, AS
OUTLINED IN ANNEX A, "SCHEDULE OF M-16 RIFLE PRODUCTION
ESTIMATES."

(2) PROGRAM COSTS AND FINANCING.

A. TO ASSIST THE GOP IN FINANCING THE TOTAL PROGRAM COSTS,

ESTIMATED AT APPROXIMATELY DOLS 29.4 MILLION AS SET FORTH IN ANNEX B, "M-16 RIFLE PRODUCTION COST ESTIMATES", THE USG WILL, SUBJECT TO THE AVAILABILITY OF FUNDS AND THE CONTINUATION OF LEGISLATIVE AUTHORIZATIONS, EXTEND EITHER FOREIGN MILITARY SALES (FMS) CREDITS OR FMS GUARANTIES FOR CREDITS OBTAINED BY THE GOP FROM UNITED STATES PRIVATE LENDING INSTITUTIONS, OR BOTH, IN THE AGGREGATE AMOUNT OF NOT TO EXCEED DOLS 15.6 MILLION FOR THE PROCUREMENT OF DEFENSE ARTICLES AND DEFENSE SERVICES FROM UNITED STATES SOURCES ONLY. THE GOP WILL PROVIDE FROM ITS OWN RESOURCES THE DIFFERENCE BETWEEN THE FINAL TOTAL PROGRAM COST AND THE TOTAL AMOUNT OF FINANCING WHICH IS SCHEDULED TO BE MADE AVAILABLE BY THE USG HEREUNDER.

B. THE AGGREGATE UNITED STATES FINANCING WILL BE PROVIDED IN THE FORM OF ANNUAL INCREMENTS, TIME-PHASED AS OUTLINED IN ANNEX C, "SCHEDULE OF FMS CREDIT REQUIREMENTS".

C. THE ANNUAL INTEREST RATE TO BE CHARGED FOR DIRECT FMS CREDITS WILL BE DETERMINED AT THE TIME EACH CREDIT AGREEMENT IS SIGNED. THE RATE WILL BE EQUAL TO COST OF MONEY TO THE USG DURING THE MONTH IN WHICH EACH CREDIT AGREEMENT IS SIGNED. FOR EACH INCREMENT OF CREDIT, PRINCIPAL WILL BE REPAID ON A SEMI-ANNUAL BASIS AND WILL BE COMPLETED WITHIN A PERIOD NOT TO EXCEED EIGHT YEARS. WITH RESPECT TO THE REPAYMENT OF THE PRINCIPAL OF DIRECT FMS CREDIT, THERE WILL BE A TWO-YEAR MORATORIUM FROM THE DATE OF SIGNING OF THE FY 1974 FMS CREDIT AGREEMENT AND A ONE-YEAR MORATORIUM FROM THE DATE OF SIGNING OF THE FY 1975 FMS CREDIT AGREEMENT. INTEREST SHALL BE COMPUTED AND PAYABLE SEMI-ANNUALLY. THERE WILL BE NO MORATORIUM ON THE SEMI-ANNUAL PAYMENTS OF INTEREST. THE DISBURSEMENT PERIOD WILL CEASE TWO YEARS AFTER THE SIGNATURE OF EACH AGREEMENT.

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D. IN THE EVENT PRIVATE FINANCING IS REQUIRED TO COMPLETE OR SUBSTITUTE FOR DIRECT FMS CREDIT, THE USG WILL--SUBJECT TO CONGRESSIONAL AUTHORIZATION AND APPROPRIATION OF FUNDS--PROVIDE LOAN GUARANTIES TO UNITED STATES PRIVATE LENDING INSTITUTIONS IN SUPPORT OF THE GOP PRIVATE LOANS. A FEE WILL BE CHARGED BY THE USG FOR SUCH GUARANTEES. THE CONTRACTUAL TERMS OF LOANS NEGOTIATED BETWEEN THE GOP AND PRIVATE LENDER(S) WHICH REQUIRE A FMS LOAN GUARANTY SHALL BE CONSISTENT WITH PERTINENT STANDARDS AND CRITERIA ESTABLISHED PURSUANT TO THE FMS ACT. THE INTEREST RATE, REPAYMENT AND OTHER PROVISIONS OF THE PRIVATE BANK LOAN WILL BE NEGOTIATED BY THE GOP WITH THE LENDER(S). GUARANTY FEES AND COMMITMENT AND OTHER FEES (IF ANY) CONNECTED WITH USG-GUARANTEED PRIVATE LOANS WILL BE PAID

BY THE GOP FROM ITS OWN RESOURCES.

E. THE GOP UNDERSTANDS THAT NO GRANT ASSISTANCE WILL BE PROVIDED BY THE USG FOR THIS PROGRAM.

F. IN THE EVENT THE USG IS UNABLE TO PROVIDE FMS DIRECT OR USG GUARANTEE OF PRIVATE CREDIT AS OUTLINED IN ANNEX C, THE GOP AGREES TO FINANCE THIS PROGRAM FROM ITS OWN OR OTHER RESOURCES.

(3) PROGRAM IMPLEMENTATION BY THE GOP.

A. THE GOP WILL, IN CONFIRMITY WITH ESTABLISHED USG PROCEDURES AND REGULATIONS, SELECT AND CONTRACT DIRECTLY WITH UNITED STATES FIRMS FOR THE LICENSE, PROP
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